July 2024

MARYLEBONE PARTNERS: PORTFOLIO MANAGER COMMENTARY

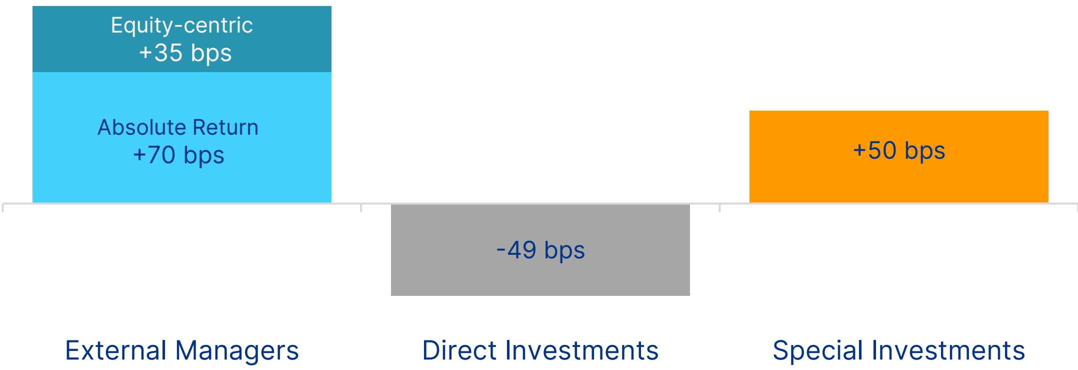
Over the third quarter of the Company's financial year, the Net Asset Value ('NAV') increased by 0.8%. The portfolio is on track to meet its CPI+4% objective while acting as a source of differentiated performance for the financial year-to-date, with performance of 14.2%.[i]

ATTRIBUTION

It was muted quarter, performance-wise. The *External Managers* allocation generated solid results, as several equity-centric managers delivered alpha and a combination of carry and idiosyncratic catalysts benefited its specialist credit managers. The contribution from *Special Investments* was positive, in aggregate. Meanwhile, *Direct Investments* posted a negative return as two stocks dragged somewhat on performance and the overall book did not participate meaningfully in the quarter's dominant narratives, reflecting its midcap bias and low representation of U.S. listed, AI-related names.[ii]

The largest position-level contributors were the **Helikon Long/Short Equity Fund**, **Silver Point Capital** and The Praesidium Software Opportunities Fund.[iii] The main detractors were the **Paradigm BioCapital Partners Fund** and direct investments in **Alight Inc** and **Evolent Health Inc**.

Gross attribution by strategy
1 April 2024 - 30 June 2024



Source: Marylebone Partners LLP. Gross contribution as of 30th June 2024. Shows return on investment portfolio net of all underlying fees / expenses but gross of Investment Manager's fees, expenses, and debenture cost.

[i] As of 31st March 2024. Debt included at fair value. Past performance is no guarantee of future returns.
[ii] The Russell 2000 index (a proxy for midcap stocks) is +1% year to date and was marginally down over the second quarter.
[iii] Investors in the Fund's U.S. limited Partnership do not have exposure to the DXF Value Fund.

Special Investments

We have recently realised two positions for substantial gains: **Project Bungalow** (a co-investment in the public equity of Shake Shack Inc. brought to us by Engaged Capital) and **Project Cauldron** (a co-investment in Alkami Inc. brought to us by Scalar Gauge Capital).

Most other Special Investments were marginally positive, with few fundamental events to report. The most recent allocations, **Project Fiber**, **Project Fortress** and **Project Sub**[iv] have all got off to a good start although, given their nature, none of these positions should be judged over a period of less than, say, 24-36 months.

Some other SIs experienced negative mark-to-market moves over the quarter, we believe the fundamental theses are intact. Brought to us by Impactive Capital, **Project Diameter** is a co-investment in the public equity of Concentrix Corporation, which - on a 20% free cash flow yield - exemplifies an opportunity created by overblown fears about AI disruption. Meanwhile, Engaged Capital admits to being '*too early, but not wrong*' about **Project Sherpa,** a co-investment in the public equity of VF Corporation. Engaged remains constructive about the turnaround potential of VF's iconic brands, especially after the company's recently announced of some high-profile executive hires.

External Managers

The portfolio's equity-centric managers performed generally well, especially given the minimal exposure amongst them to the handful of megacap tech stocks that drove major indices. The best performing managers were the **Helikon Long/Short Equity Fund** (a European special situations manager), the **Praesidium Strategic Software Opportunities Fund, and the Perseverance DXF Value Fund** (a China specialist). The **Engaged Capital Flagship Fund** (a midcap activist) was the only detractor.

The allocation to specialist credit strategies continued to make a valuable contribution, with **Silver Point Capital** and the **Millstreet Credit Fund** producing uncorrelated absolute returns.

Direct Investments

The direct investments allocation has had a difficult few months and - with the Russell 2000 index up only +1% over the calendar year to date – this in large part reflects its bias towards recently out-of-favour midcap stocks. As the market's attention has turned elsewhere, we have been finding quality at a reasonable price outside of the obvious areas. On a weighted average basis, the direct investments module stands on an expected 2025 free cash flow yield of >6% and a 2025 PE of <15x. That is undemanding for a group of companies whose earnings we expect to grow at a rate in the low double digits for the next three years.

The best performance came from **Cancom SE**, whilst our holdings in **Alight Inc** and **Evolent Health Inc** both performed poorly. In both cases, we believe the short-term weakness was unwarranted and should be reversed as earnings and other catalysts play out over the second half of the calendar year.

[iv] Previously referred to as Project Montana.

OUTLOOK

"Travel extensively. Attempt to meet local interesting people where you travel and keep in contact with them throughout your life. See them when you return to a place."

- Byron Wien's 20 Life Lessons, February 2023

Last month, we visited the United States for updates with over 20 external managers. We have been making these semi-annual trips for nearly two decades, meeting new talent whilst garnering insights from longstanding relationships with many seasoned investors.

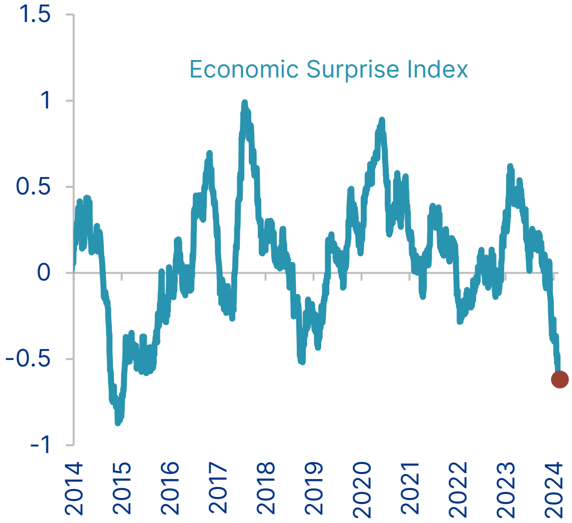
This particular trip was notable for the conviction our managers expressed in their respective bottom-up ideas. The universe of idiosyncratic opportunities is as plentiful, as it is diverse. We also came home with some high-level observations:

1. The U.S. economy is decelerating

The U.S. economy is decelerating as consumption and the labour market soften. For now, a more challenging consumer environment creates headwinds for economically sensitive companies and partly explains why earnings revisions (outside the handful of big growth stocks) are slightly negative year-to-date.

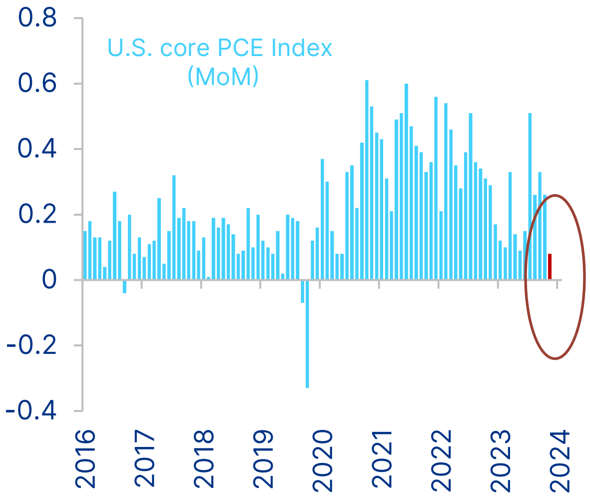
However, a cooler economy leaves room for monetary policy to loosen towards the end of the year. With the odds shortening on a Trump presidency, a lower Fed Funds rate could combine with import tariffs, a reduction in immigration, and an even bigger budget deficit to rekindle the embers of inflation. Several of our managers believe this might also precipitate a rotation into more cyclical stocks.

The U.S. economy appears to be cooling



Source, Bloomberg, as of June 2024.

Receding inflation might pave the way for rate cuts



Source: The Daily Shot, as of June 2024.

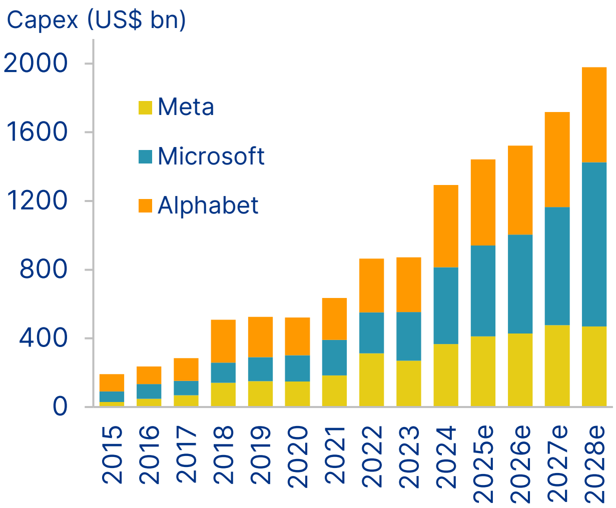
2. An arms race in Artificial Intelligence (AI)

"The precedents are of limited value because they don't inform the critical issue: how long the AI excitement will go on, and if the narrative (i.e., a profitable AI revolution) will prove correct. It's simply too early to tell, and the market is giving the leading companies the benefit of the doubt. While analysts are trying to forecast the shape of the demand curve, we doubt they have any edge in doing so".

- Empirical Research, June 2024

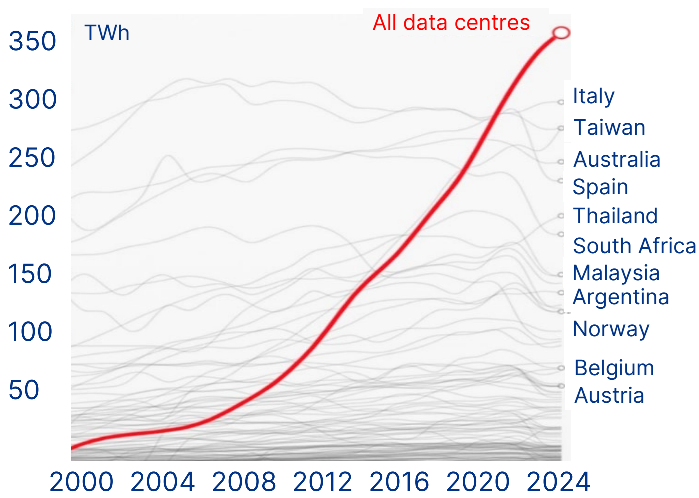
We are still early in the development of AI. Behemoth technology platforms have committed to massive investment programmes to protect their dominant positions.[v] Because, at this stage, there is little comprehension of the ultimate shape that AI will take (or how to monetise it), these companies' decisions are based not so much on a conventional 'return on capital' calculus as on their leaders' vision of the future.

Tech giants' massive AI spending



Source: Industrial Info Resources, as of June 2024.

Data centres consume more electricity than most countries



Source: Bloomberg, as of June 2024.

In most cases, the market gives these companies the benefit of the doubt. However, it is unclear to us what long-term returns they will earn on this spending, or the implications that growing capital intensity (and *carbon* intensity) might have for their business models and valuations in due course.[vi]

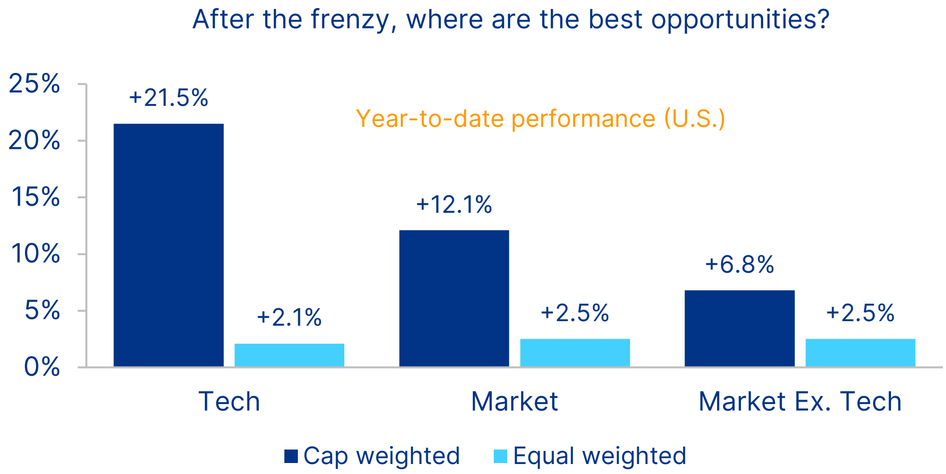
For us, the best and most responsible way to take advantage of the AI phenomenon is to:

(a) seek out opportunities that are attractive on their own merits, but have an unappreciated AI kicker; and/or

[v] The Economist projects a combined capex from four companies of more than US$1trn over the next five years.
[vi] BCG projects that, by 2030, datacentre electricity consumption will be equivalent to the energy usage of one-third of the total homes in the U.S. According to Morningstar, the top 5 companies held by ESG funds in 2023 were Microsoft, Apple, Alphabet, NVIDIA and Amazon.

(b) identify compelling fundamental investments that have been left behind - or unfairly punished - by the AI narrative.

After the recent frenzy, many of the best AI-related opportunities may be found outside of the mega-cap Technology sector.



Source: Goldman Sachs, 2024 YTD, as of June 2024.

3. Indexation creates opportunity

> *"As several trillion dollars have been redeployed in this [passive] fashion, it has fundamentally broken the market. The result of this historic shifting of capital is a beautiful opportunity set. If we invest in companies that don't have a lot of debt and can return a good chunk of their earnings to us in buybacks and dividends… it doesn't matter if other investors continue to ignore the stocks."*

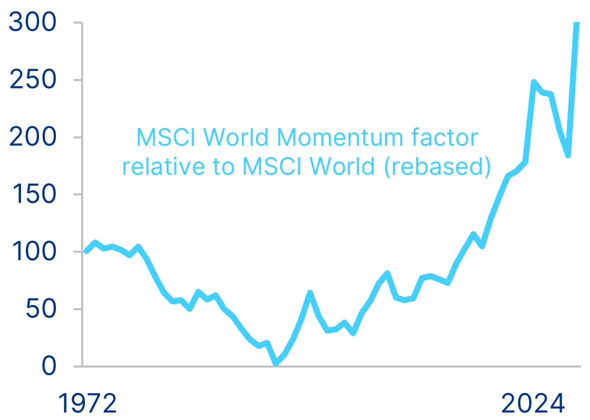
- David Einhorn (Greenlight Capital), April 2024.[vii]

In the first half of 2024, the top five contributors to the S&P500 accounted for some 57% of its total return; these companies now make up one-quarter of the index.[viii] Any opinion expressed about an active manager's ability to 'beat the market' therefore carries with it a huge, implied judgment call on how a handful of stocks will fare over time.

At Marylebone Partners, our primary purpose when investing in equities is not to outperform an index, but to deliver high-quality total returns that exceed inflation. We have no foresight on the direction of markets, but are confident in our ability to find stocks - directly and through our external managers - to deliver the outcomes our investors seek.

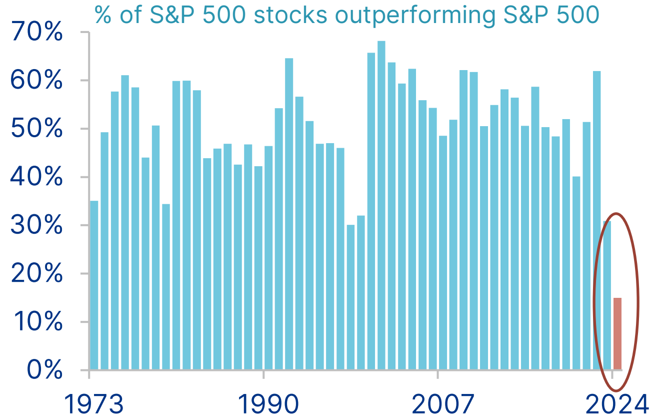
[vii] For more on Einhorn's views on this subject, see www.bloomberg.com/news/audio/2024-02-08/masters-in-business-david-einhorn-podcast?sref=D9VZaxBn.
[viii] Source: Empirical Research.

A narrow, momentum-led market...



Source: Bloomberg, as of June 2024

...creates a "beautiful opportunity set"



Source: Ned Davis Research, Inc, as of June 2024

4. The China wild card

After years of retrenchment, some global investors are turning to China for business quality and growth at a reasonable price.

Certainly, there is value to be found in China's stock markets, which have been consistently eschewed by Western allocators. The Chinese economy accounts for roughly 17% of global GDP (vs. 26% for the United States), yet it has a weighting of less than 3% in the MSCI All Countries World Index (vs. 65%).[ix]

According to Bloomberg, the MSCI China index is some 60% cheaper than the US equity benchmark on earnings-based valuation measures.

China's substantial valuation discount

Source: Bloomberg, as of June 2024.

[ix] Source: IMF, MSCI.

This has been true for some time, so why revisit now? China is taking steps towards its own version of the Troubled Asset Relief Programme ('TARP') that stabilised the U.S. economy in the wake of the 2008 Financial Crisis. Last quarter, the Politburo called for faster issuance of special government bonds and announced a programme to purchase unfinished projects from property developers. Along with a cut in mortgage rates and a reduction in minimum down-payments, the People's Bank of China announced a CNY300 billion (US$ 45 billion) re-lending programme and will issue one trillion CNY (US$ 138 billion) of ultra-long Treasury bonds to buy swathes of unsold homes.

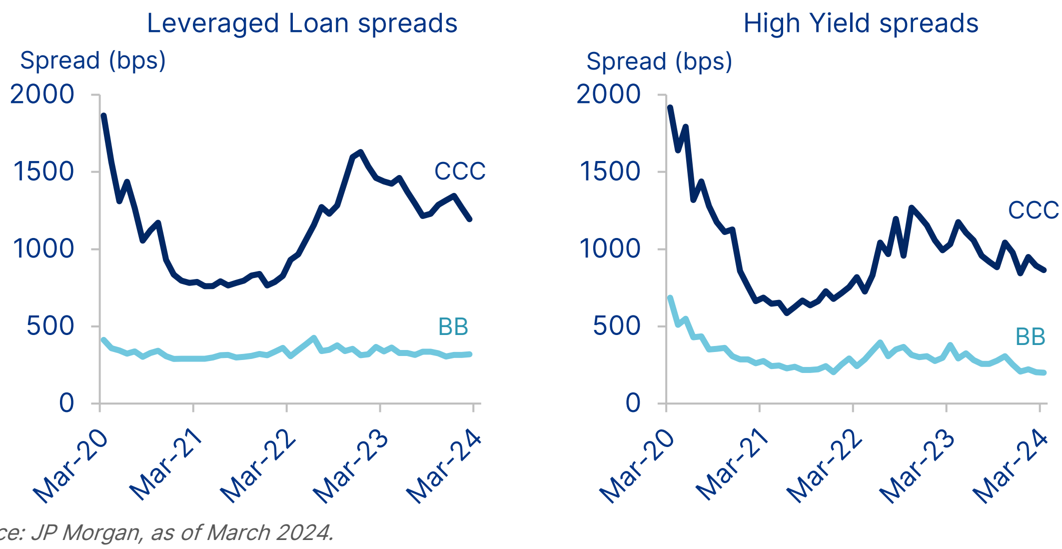
Meanwhile, the economy is showing signs of life, helped by manufacturing activity and a recovery in exports. With a pickup in holiday travel and spending, the outlook for the consumer is gradually improving. Households have substantial excess savings to fuel an extended recovery in the economy and stock market when confidence returns.[x]

Regardless of who wins the U.S. election in November, the political relationship between Washington and Beijing will remain tense. However, the primarily domestic nature of the Chinese economy means that tariffs and export controls might not have as severe an impact as many fear.

We believe that local knowledge of companies, politics and regulation is required to take advantage. That's why our preferred route is via the **Perseverance DXF Value Fund**, whose Shanghai-based team has three decades of experience investing in all sectors across China. Our investments in **Copper** and the **Contrarian Emerging Markets Fund** should also benefit from a China recovery.

5. Bifurcated credit markets

Corporate credit markets in the U.S. and Europe are bifurcated. The following charts show the divergence between the spreads on U.S. leveraged loans and high-yield bonds with different credit ratings.[xi] Whereas higher-quality ('BB') bonds appear fully valued, the more out-of-favour ('CCC') cohort looks potentially rewarding for bargain hunters.



Source: JP Morgan, as of March 2024.

[x] Since the beginning of 2020, family bank balances in China have risen 79%, a net increase equal to US$ 9.1 trillion (more than the GDP of Japan in 2022, and equal to 95% of China's tradable A-share market capitalisation).
[xi] The spread indicates the yield premium over a 'risk-free' government bond of similar duration. A spread of 1000bps suggests the lender should expect to earn 10% more carry than in an equivalent government bond, to compensate for greater credit risk.

Our specialist credit managers continue to harvest attractive all-in yields. They are working proactively with companies to extend debt maturities via new securities with higher coupons that provide protection for lenders through stronger covenants. One seasoned distressed-debt investor described how he is 'astounded' to be finding such compelling opportunities at this stage in the cycle, attributing his good fortune to the withdrawal of competition, a lack of dealer liquidity, and the often-irrational behaviour of non-fundamental, rules-based market participants.

We have allocated roughly one-quarter of the Majedie portfolio to stressed and distressed credit strategies.

THE PORTFOLIO

Turnover was minimal last quarter. Always guided by where we see the best potential for risk-adjusted absolute returns, we did not feel the need to make many changes. There were no substantial shifts in capital allocation over. recent months, and we are happy with the balance struck across the portfolio.

Cross-correlation between component investments remains characteristically low, indicating we have achieved a degree of risk diversification without reducing return potential.

Cash levels are around 5% and we maintain good levels of liquidity, mindful that that the Company's debenture is set to mature in April 2025. The bar for putting capital to work is very high.

The portfolio's beta-adjusted net exposure is currently towards the upper end of its medium-term range. However, because much of the Equity-centric exposure is to overlooked situations, it should not be especially vulnerable to a reversal in market momentum.

We are monitoring various market threats, which include geopolitics, social division in the United States and Europe, a potential resurgence of inflation, and the delayed impact of higher interest rates on economic growth rates and corporate balance sheets.

Although we continue to evaluate portfolio hedges, for now we have concluded they do not make sense in the context of our underlying investments, which look and feel very different to the wider equity and credit markets.

Special Investments

The monetisation of **Project Bungalow** and **Project Cauldron**, along with proceeds from **Project Retain**, have naturally returned cash to the portfolio.

Meanwhile, our team has been working hard to source new ideas. We are excited about four new Special Investments to which we committed at quarter-end, and will report on them in due course.

The overall allocation is rising towards its initial target of 20% of NAV. At quarter end, the five largest allocations to Special Investments were as follows:

Security	Profile
Project Uranium	Thematic
Project Fibre	Co-invest
Project Fortress	Co-invest
Project Sub	Co-invest
Project Challenger	Co-invest

External Managers

The External Managers component was broadly unchanged through the quarter and currently stands at 53% of the total portfolio. We exited one investment in a regional specialist manager to make room for other ideas in the pipeline which have greater alpha potential and that would bring additional portfolio benefits.

Equity centric managers

Fund Name	Expertise	Geography	Style
CastleKnight Master Fund	Special Sits	U.S.-centric	Long Bias
Helikon L/S Equity Fund	Special Sits	Europe-centric	Long Bias
Paradigm BioCapital Partners Fund	Biotech	U.S.-centric	Long Bias
Perseverance DXF Value Fund	Greater China	Asia	Long Only
Praesidium Strategic Software Opps	Software	U.S.	Long Only

The *Absolute Return* manager component is also unchanged since last quarter. With a recession seemingly averted despite rates staying 'higher for longer', our managers have thus far mitigated default risk whilst earning attractive carry. Although the credit backdrop will evolve, we believe they are capable of absolute returns in the 8-10% pa range for several years, with a high probability of outcome and low correlation to markets and other parts of the portfolio.

Fund Name	Expertise	Geography
Contrarian Emerging Market Fund	Distressed Debt	Emerging Markets
CQS Multi-asset Credit Fund	Liquid Credit	Global
Eicos Master Fund	Stressed / Distressed	Europe
Millstreet Credit Fund	High Yield	U.S.
Silver Point Capital Fund	Stressed / Distressed	Global

Direct Investments

We are upbeat about the prospects for our direct investments book. Having been largely ignored by the markets year-to-date, the upside to modelled base-case fair value is above +40%. The five largest positions (in alphabetical order) are:

Position	Sector	Location	Market Cap	FCF yield (2025e)[xi]	P/E (2025e)[1]	Upside to FV
Global X Copper Miners ETF	Commodities	n/a	$2.7bn	3.9%	12.7x	n/a
Computacenter plc	Computer Services	U.K.	$4bn	6.3%	14.9x	+38%
KBR, Inc.	Govt Services	U.S.	$9bn	6.0%	16.5x	+41%
SS&C Technologies Inc	Software	U.S.	$15bn	9.6%	10.9x	+44%
Weir Group plc	Industrials	U.K.	$6bn	5.7%	14.6x	+37%

Source: Marylebone Partners LLP. YTD 2024, as of June 2024.

SUMMARY

Over the first half of the year, we made solid progress towards achieving our performance objectives. Many markets stand close to all-time highs, buoyed by heavy concentration in a few AI-related mega-caps. We see better return potential, and less risk, outside these areas. Consequently, the Majedie portfolio comprises many non-consensual and overlooked opportunities, some with near-term catalysts.

Marylebone Partners

[1] Based on FactSet consensus estimates. Marylebone Partners' forecasts often differ materially.

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